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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
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COMMISSIONER

IN THE MATTER OF THE APPLICATION)
OF RIO VERDE UTILITIES, INC. FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES FOR CUSTOMERS)
WITHIN MARICOPA COUNTY, ARIZONA.)

DOCKET NO. WS-02156A-00-0321

IN THE MATTER OF THE APPLICATION)
OF RIO VERDE UTILITIES, INC. FOR)
AUTHORITY TO ISSUE PROMISSORY)
NOTE(S) AND OTHER EVIDENCES OF)
INDEBTEDNESS PAYABLE AT PERIODS)
OF MORE THAN TWELVE MONTHS AFTER)
THE DATE OF ISSUANCE.)

DOCKET NO. WS-02156A-00-0323

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Surrebuttal Testimony of Timothy Coley and Marylee Diaz Cortez, in the above-referenced
matter.

RESPECTFULLY SUBMITTED this 31st day of January, 2001.

Daniel W. Pozefsky
Attorney, RUCO

1 AN ORIGINAL AND TEN COPIES
2 of the foregoing filed this 31st day of
3 January, 2001 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 31st day of January, 2001 to:

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RIO VERDE UTILITIES, INC.

DOCKET NO. WS-02156A-00-0321

DOCKET NO. WS-02156A-00-0323

SURREBUTTAL TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 31, 2001

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INTRODUCTION

Q. Please state your name for the record.

A. My name is Timothy James Coley.

Q. Have you previously filed testimony regarding these dockets, which were consolidated and to be heard simultaneously?

A. Yes, I filed direct testimony on behalf of these dockets on December 15, 2000.

Q. What is the purpose of your surrebuttal testimony?

A. In my surrebuttal testimony, I will discuss some arguments set forth in the Company's rebuttal testimony. In particular areas, I will point out where past Arizona Corporation Commission (ACC) precedents have withstood some of the Company's attempts in this case to mitigate those past Commission decisions. In other situations pertaining to this case, I will rebut certain arguments that the Company made in its rebuttal testimony. In these efforts, I will show that certain arguments of the Company are incorrect and/or misleading. Insofar, I will demonstrate why certain rebuttal arguments of the Company should be rejected and why certain arguments should be accepted.

Q. What areas will you address in your surrebuttal testimony?

A. I will provide surrebuttal testimony in the following areas:

- 1 • Plant Adjustments
- 2 • Working Capital
- 3 • Treatment of Hook-up Fees
- 4 • New Computational Methodology for Property Taxes Based on Gross
- 5 Revenues
- 6 • RUCO's Rate Case Expense Adjustment
- 7 • Debt Cost on New Proposed CoBank Loan
- 8 • RUCO Proposed Water Loan
- 9 • Contributions-in-Aid-of-Construction (CIAC)
- 10 • Stand Alone Income Tax Rates

11

12 Q. Has the Company accepted any of your recommended adjustments in its rebuttal

13 testimony?

14 A. Yes, the Company has accepted the following RUCO adjustments:

- 15 1) In the Company's rebuttal testimony, it basically adopted the ACC Staff's
- 16 position with regard to plant issues for both the water and sewer divisions.
- 17 Thus, the Company's rebuttal plant matches the ACC Staff's plant.
- 18 However, many of RUCO's adjustments to plant were the same as the
- 19 ACC Staff, and therefore, many of RUCO's plant adjustments were also
- 20 effectively accepted.
- 21 2) The Company accepted RUCO's treatment of including the various
- 22 components related to the existing and proposed loans in rate base. It
- 23 has also accepted my recommended calculation of the cost of debt to

1 include the interest on the debt reserve, the patronage capital return, as
2 well as, the amortization of the deferred financing charges. Since the filing
3 of my direct testimony, the Company has proposed a lower debt cost on
4 the proposed loan based on updated information from CoBank. I have
5 updated my cost of debt schedules to reflect the new cost of the CoBank
6 loan.

7 3) The Company adopts a portion of what RUCO recommends regarding the
8 treatment of hookup fees for both water and sewer.

9 4) Even though the Company states in its rebuttal testimony that it "did not
10 accept any revenue or expense adjustments from either RUCO or RVCA
11 (Rio Verde Community Association)," the Company did reduce its salaries
12 and wages, which RUCO also recommended. The Company's reduction
13 was not as much as RUCO recommended, however, the Company did
14 recognize that a salary and wage reduction is proper and necessary.

15 5) The Company explicitly agreed with RUCO's inclusion of the debt reserve
16 and the deferred finance charges in rate base. However, the Company
17 stated that it did "not agree with RUCO's proposed loan for the water
18 utility." However, the Company agreed that RUCO was the only
19 intervenor to correctly calculate the effective interest rate on the existing
20 and proposed loans.

RATE BASE

Q. After the Company filed its rebuttal testimony, did you make any changes to your rate base schedules that were previously filed in your direct testimony?

A. Yes. I made a change to my rate base adjustment to the water division (Transmission & Distribution Mains). I have not changed my working capital adjustment but rather respond to the Company's rebuttal arguments concerning rate case expenses as an element of Working Capital.

Rate Base Adjustment #3 – Transferred Not Used & Useful Effluent Line to Sewer Division

Q. Have you transferred your non-used and useful effluent line adjustment from the water to the sewer division?

A. Yes, I made such a change to conform to all the other interveners' treatment of effluent lines that were not used and useful. In my direct testimony, I removed \$26,480 from the transmission and distribution mains account. All parties in the case agree that the lines are not used and useful. However, the other interveners removed this non-used and useful plant from the effluent lines in the wastewater division. For the sake of congruency and consistency, I added the \$26,480 back into the water division's transmission and distribution mains and deducted the amount from effluent lines in the wastewater division.

1 Q. Do you believe that removing these lines from the wastewater plant is more
2 appropriate than removing them from the water plant?

3 A. Yes. After reviewing the other interveners treatment of the lines, I made a
4 telephone call to Mr. John Chelus, an Engineer with ACC Staff, who informed me
5 that the lines would more appropriately be classified as effluent lines, and thus,
6 the adjustment should be made to the sewer division.
7

8 Q. Does this reclassification from water to wastewater have an affect on the overall
9 revenue requirement?

10 A. Yes and no. It increases the water rate base, but the effect is quite minimal. At
11 the same time, the reclassification of the adjustment decreases wastewater plant
12 –effluent lines- by the same amount. In essence, the adjustment is an equal
13 exchange between the water and wastewater plant.
14

15 Q. Does removing this adjustment from the water division rate base have any other
16 effects on your schedules or calculations?

17 A. Yes, it results in a slight decrease on the depreciation expense found in the
18 Operating Income Statement on Schedule TJC-8 for the water division.
19

20 Q. Were there any other adjustments or modifications necessary to your water rate
21 base schedule?

22 A. Yes. Ms. Diaz Cortez will discuss the plant retirements that necessitated other
23 changes.

Rate Base Adjustment #5 – Cash & Working Capital

Q. In the Company's rebuttal testimony, did the Company argue that rate case expense is a legitimate expenditure to be included in determining the cash & working capital formula?

A. Yes.

Q. Did you include rate case expenses in your cash & working capital formula in determining the proper amount to be allowed in rate base?

A. No.

Q. What amount of rate case expense is the Company proposing to be part of working capital formula?

A. In the Company's rebuttal testimony, Rio Verde has taken the position that Staff's proposed \$10,000 in annual amortized rate case expense should have been included in the working capital formula that I used to determine my recommended \$89,535 working capital calculation.

Q. Please describe your reasoning for not including rate case expenses as an allowable element in calculating the cash & working capital formula?

A. I believe it is appropriate to exclude amortized rate case expenses from the working capital calculation. The working capital formula was intended to emulate an actual lead lag study and for this reason non-cash items such as depreciation

1 expense and the amortized rate case expense in question should not be included
2 in the calculation.

3
4 Q. How has the ACC treated non-cash items in the past relating to working capital
5 calculations?

6 A. The ACC has consistently disallowed the inclusion of non-cash items from
7 working capital calculations. An example of this can be found in Decision No.
8 58360, dated July 23, 1993, in which Citizens Utilities Company (Arizona Electric
9 Division) included rate case expenses in its working capital calculation. The
10 Decision states the following:

11 We agree with Staff and RUCO that rate case expense should not
12 be included in cash working capital requirements. Including rate
13 case expenses in cash working capital would allow the Company to
14 earn a return on that amount until its next rate case. The
15 amortization of rate case expenses over a period of years allows
16 the Company to re-cover its costs and we find that Citizens' request
17 to amortize its rate case expenses over three years is the
18 appropriate method for rate case expense recovery.

19
20
21 The Commission reached a similar conclusion in a more recent rate case
22 proceeding for Paradise Valley Water Company. The following was quoted from
23 Decision No. 59079, dated May 5, 1995:

24 As we have stated in numerous other decisions, the calculation is
25 for "cash working capital" and not "cash and non-cash working
26 capital". Similarly, the Commission recently indicated in Decision
27 No. 58360, dated July 23, 1993, that it was appropriate to remove
28 rate case expenditures from the cash working capital requirement.
29 (emphasis included)
30

OPERATING INCOME

Operating Adjustment #2 – Hook-up Fees

Q. In your direct testimony, did you make any adjustments regarding new connection hook-up fees?

A. Yes.

Q. What did you propose for hookup fees in this instant case?

A. I proposed raising the hookup fees for both water and sewer by \$500. I increased water to \$1,000 and sewer to \$1,500 from the currently approved amounts of \$500 and \$1,000 respectively. The other parties to this case concur that the amount of the hookup fee should be increased. The last Commission Decision authorized a hook-up fee from the first 60 customers per year to be recorded as revenue. I have recommended that the first 60 hookup fees be accounted for as revenue. I also propose that the Commission's decision that capped the number of hookup fees to be accounted for as revenues continue intact at the current 60 hook-up fees. In ACC Decision No. 58525, the Commission authorized the Company a total of 60 hookup fees to be accounted for as revenue, and any additional hookups be accounted for as Contributions-in-Aid-of-Construction (CIAC). My recommendation is to continue this treatment.

1 Q. What position does the Company propose pertaining to hookup fees in this case?

2 A. In the Company's initial application, it asked that the cap be entirely eliminated
3 and all hook-up fees be accounted for as revenue. However, in its rebuttal it has
4 taken a new position.

5
6 The Company now seeks the same amount as RUCO proposes for each hookup
7 fee, but the Company has revised its total hook-up fees to 35 that should be
8 accounted for as revenue, and hook-up fees from customers over 35 per year
9 should be accounted for as CIAC.

10
11 Q. What advantages and benefits are afforded the Company and ratepayers by
12 allowing hookup fees to be accounted for as revenue?

13 A. The main benefit that the Company receives is obviously the cash infusion
14 created by the hookup fees being accounted for as revenues. As for the
15 "current" ratepayer, the principal advantage would be lower rates in this case.

16
17 Q. What are the disadvantages of accounting for hookup fees as revenues for both
18 the ratepayer and Company?

19 A. That question raises a dilemma, and the answer depends if one is taking a short-
20 term or long-term view on the issue. Whatever point of view one chooses,

1 another could just as easily argue the merits of the other side of the matter.
2 There is at least an equal argument, by debating either side of the subject.
3

4 Charging new customers these higher hookup fees correctly targets the cause
5 for additional plant, which are the new customers. In addition, recording hook-up
6 fees as revenue lowers the rates that the current customers must pay. By not
7 accounting for fees as revenue, the ratepayers that have been on the system for
8 a long time are in effect subsidizing the new higher cost customer. However,
9 there are some deficiencies and weaknesses in this approach.
10

11 The most important perspective to realize when allowing hookup fees to be
12 accounted for as revenues as opposed to CIAC is when build-out occurs. When
13 all lots are sold and homes are no longer being built, there will be no new hook-
14 up fees. At that point, the amount of hook-up fee revenues that will no longer
15 exist and will have to be made up through an increase in rates.
16

17 Q. What is RUCO's position in regards to hook-up fees being accounted for as
18 revenue?

19 A. Generally, RUCO has opposed hook-up fees to be recorded as revenue. RUCO
20 more strongly believe that CIAC is the better treatment of hook-up fees because
21 the benefit is spread out over the life of the plant that the CIAC supports.
22 However, with the more costly and stringent demands placed on water/sewer

1 utilities, our studies demonstrate that new plant costs have more than doubled in
2 the last eight years. RUCO realizes this places an unfair burden on the existing
3 customers because the primary driving force behind rate increases is the
4 additional plant needed to serve new customers. While RUCO's interest as a
5 consumer advocate is for both the new and existing residential customer, we
6 suggest that hook-up fees as revenue be approached with caution and
7 conservatism. These hook-up revenues must be controlled and maintained at a
8 level that will not create rate shock when build-out finally occurs in the future.

9
10 **Operating Adjustment #5 – Property Taxes**

11 Q. What method did you use in determining your property tax adjustment?

12 A. In my direct testimony, I used the actual property tax bills in computing my
13 adjustment. In its rebuttal testimony, the Company used a different method of
14 computing its property taxes than that originally utilized in its direct testimony.
15 From the Company's rebuttal testimony, it was brought to my attention the
16 Arizona Department of Revenue – Property Tax Division (ADOR) and the Water
17 Utilities Association of Arizona reached an agreement to compute property taxes
18 utilizing a new methodology. After contacting the ADOR, Ms. Carole A. O'Brien
19 affirmed the new valuation method. Ms. O'Brien faxed me a copy of the new
20 methodology that will be used beginning in 2001. I have attached a copy of the
21 new ADOR methodology to my surrebuttal testimony as Attachment TJC-A.

1 Q. Did the Company use the new method prescribed by ADOR in determining its
2 property taxes?

3 A. Not completely. The Company ignored and explicitly stated that it did not follow
4 one of the primary goals of the new valuation methodology.

5
6 Q. What did the Company not do correctly when computing its property taxes under
7 this new valuation method?

8 A. The Company did not use the three-year average of gross revenues that the
9 formula prescribes. The agreement with ADOR explicitly states in goal #6 "The
10 goal of the Department and the Association was to arrive at a valuation formula
11 that would produce a minimum tax impact from the previous year".

12
13 In my surrebuttal testimony and schedules, I have computed the new valuation
14 formula using the prescribed three-year average as called for by the ADOR.

15
16 **Operating Adjustment #8 – Rate Case Expense**

17 Q. Is there a correction you would like to make in your direct testimony schedules
18 relating to your rate case expense adjustment?

19 A. Yes, I inadvertently included an amount in my calculation that removed a legal
20 expense that should be allowed.

1 Q. What revision are you making to your rate case adjustment as proposed in your
2 direct testimony?

3 A. From my direct testimony Schedule TJC-12, I would like to remove the \$540 in
4 "Note A" line marked #68. This correction will decrease my annual adjustment
5 from \$540 to \$486.
6

7 **CAPITAL STRUCTURE - COST OF DEBT**

8 Q. Was it necessary to compute a new cost-of-capital structure after the Company
9 filed its rebuttal testimony?

10 A. Yes.
11

12 Q. What was significantly different in the Company's rebuttal compared to the
13 Company's direct testimony that required you to recalculate the cost of capital?

14 A. In the Company's original application, it requested Commission authorization for
15 a new loan. The proposed new loan was from CoBank. The long-term debt rate
16 was stated at 9.75% in the Company's direct testimony. In the Company's
17 rebuttal testimony, the Company stated that it had received an email from a Vice-
18 President at CoBank that quoted a rate of 9.18%. This was a substantial
19 decrease that had ramifications throughout the revenue requirement formula.
20
21

1 Q. What are the terms of the loan requested by the Company?

2 A. The Company is requesting total financing of \$2,469,787 to be repaid over a
3 twenty-year period at an estimated 9.18 APR. The following are other conditions
4 of the loan:

5 1. A 1% Finance Charge Assessed on the Loan's Original Balance.

6 2. A 10% Debt Reserve Fund must be maintained for the life of the
7 loan

8 3. A 0.74% Patronage Dividend maintained on the loan's outstanding
9 balance
10

11 Q. What is the purpose of the proposed funds?

12 A. The Company states that it owes its parent company \$2,198,110, and the
13 remaining balance of \$271,677 will go towards cash working capital and aid in
14 the construction of new plant.
15

16 Q. What does the Company claim it owes its parent company for?

17 A. It claims it owes the parent company for water and sewer plant installed in 1998
18 and 1999.
19
20

1 Q. Do you recommend that the ACC authorize this loan for \$2,469,787?

2 A. No. I identified plant that the Company seeks financing for that has already been
3 provided for through CIAC. If the Commission authorized the full amount of the
4 Company's request, it would be providing the Company debt authorization to
5 finance what has already been financed with CIAC.

6
7 Q. How much does RUCO recommend that the Commission authorize regarding
8 this new proposed loan?

9 A. The Commission should grant authorization in the amount of \$880,068 for the
10 water division and \$869,452 for the sewer division.

11
12 **CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)**

13 Q. In reviewing the Company's rebuttal testimony, did you identify any other areas
14 that the Company modified as a result of your direct testimony?

15 A. The Company corrected a CIAC amortization amount that RUCO's direct
16 testimony addressed. The Company had originally amortized CIAC net of
17 amortization instead of amortizing the gross amount of CIAC. This correction is
18 made on Company's rebuttal testimony on Schedule C-2, page 3.

STAND ALONE INCOME TAX RATE

Q. Please respond to the Company's rebuttal arguments regarding income tax rates?

A. The Company argues that my use of stand-alone income tax rates for the water and sewer division assumes that the divisions file separate tax returns.

Q. Did you, in fact, assume this?

A. No. It has consistently been this Commission's policy to set rates based on stand-alone tax rates. This policy has held regardless of the impact of stand-alone rates. In many cases the use of consolidated tax rates would result in the stand alone entity having no income tax liability due to consolidated tax losses. In such instances, the Commission uses stand-alone rates.

The following cites exemplify this Commission's policy:

The Company utilized the actual 35 percent income tax rate applicable to Citizens' consolidated federal income tax return. Staff and RUCO recommended that federal income tax be calculated for each Maricopa W/WW utility to reflect the correct tax rate for each utility on a separate return basis. We concur with Staff and RUCO. [Decision No. 60172, dated May 7, 1997 at page 32]

The Company used a 35 percent federal income tax rate in its application. RUCO indicated that federal taxes should be computed as if the Company were a stand-alone entity, and the result tax rate would be 34 percent for a corporation with the Company's revenues. The Company indicated that it files a consolidated tax return with TDS and the resulting federal income

1 tax is 35 percent. We concur with RUCO that income taxes should
2 be computed on a stand-alone basis. Ratepayers should not bear
3 the burden of a higher tax rate resulting from TDS's decision to file
4 a consolidated tax return. [Decision No. 60741, dated March 26,
5 1998 at page 16 and 17]
6

7 Q. Have you made any changes to the income tax rates utilized in your direct
8 testimony?

9 A. As just discussed, I do not agree with the Company regarding the use of
10 consolidated tax rate, and accordingly have made no changes on this basis.
11 However, after conversations with ADOR personnel, I learned that the new
12 effective state tax rate for corporations will be 6.968% beginning in 2001. Since
13 this is a known and measurable change, I have adjusted my income tax
14 calculations to reflect the new rate. There are also differences in my effective tax
15 rates in my surrebuttal schedules that are attributable to changes in my operating
16 income recommendations.
17

18 **REVENUE REQUIREMENT FORMULA**

19 Q. Have you completed a new revenue requirement formula due to various changes
20 and the revised cost of debt?

21 A. Yes, my water and wastewater schedules have been updated to account for all
22 the modifications necessary to compute the new revenue requirements.
23
24

1 Q. Does this complete your surrebuttal testimony?

2 A. Yes.

3

4

5

6

7

Rio Verde Utilities, Inc. - **WATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-1

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY ORIGINAL <u>COST</u>	(B) RUCO ORIGINAL <u>COST</u>
1	Adjusted Rate Base	\$ 4,248,575	\$ 3,312,416
2	Adjusted Operating Income	\$ 202,263	\$ 231,735
3	Current Rate of Return (L2 / L1)	4.76%	7.00%
4	Required Rate of Return	11.45%	10.40%
5	Required Operating Income (L4 * L1)	\$ 486,388	\$ 344,557
6	Operating Income Deficiency (L5 - L2)	\$ 284,125	\$ 112,822
7	Gross Revenue Conversion Factor (Sch. TJC-14)	1.6469	1.7443
8	Required Revenue Increase (L7 * L6)	\$ 467,926	\$ 196,792
9	Adjusted Test Year Revenue	\$ 953,199	\$ 981,916
10	Proposed Annual Revenue (L8 + L9)	\$ 1,421,125	\$ 1,178,708
11	Required Increase in Revenue (%)	49.09%	20.04%
12	Requested Rate of Return on Common Equity (%)	12.75%	11.40%

Rio Verde Utilities, Inc. - **WATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	\$ 6,619,374	\$ (130,251)	\$ 6,489,123
2	Less: Accumulated Depreciation	1,158,669	(137,979)	1,020,690
3	Net Plant in Service	<u>\$ 5,460,705</u>	<u>\$ 7,728</u>	<u>\$ 5,468,433</u>
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 1,269,935	\$ -	\$ 1,269,935
5	Less: Accumulated Amortization	-	-	-
6	Net CIAC	<u>1,269,935</u>	<u>-</u>	<u>1,269,935</u>
7	Advances in Aid of Construction (AIAC)	-	886,965	886,965
8	Customer Deposits	120,684	-	120,684
9	Meter Advances	-	-	-
10	Deferred Income Tax Credits	61,793	2,983	64,776
	<u>ADD:</u>			
11	Unamortized Finance Charges	12,904	(4,103)	8,801
12	Cash Working Capital (1/8 Method)	98,339	(8,804)	89,535
13	Debt Reserve Fund (proposed CoBank Loan)	129,039	(41,032)	88,007
14	Other Additions	<u>-</u>	<u>-</u>	<u>-</u>
15	Total Rate Base	<u>\$ 4,248,575</u>	<u>\$ (936,159)</u>	<u>\$ 3,312,416</u>

REFERENCES:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) RUCO ADJUSTED
PLANT IN SERVICE:									
1	Organization Cost	\$ 1,360							\$ 1,360
2	Franchise Cost								
3	Land and Land Rights	41,512							41,512
4	Structures and Improvements	37,133							37,133
5	Wells and Springs	1,610,304							1,610,304
6	Power Generation Equipment	35,397							35,397
7	Electric Pumping Equipment	973,284							973,284
8	Water Treatment Equipment	12,184							12,184
9	Distribution Reservoirs & Standpipe	360,282							360,282
10	Transmission and Distribution Mains	2,701,140							2,701,140
11	Services	347,232							347,232
12	Meters	81,524							81,524
13	Hydrants	183,259							183,259
14	Plant Structures and Improvements	105,744							105,744
15	Office Furniture and Fixtures								
16	Transportation Equipment	36,684							36,684
17	Tools and Work Equipment	10,269							10,269
18	Laboratory Equipment	7,336							7,336
19	Communications Equipment	63,499							63,499
20	Miscellaneous Equipment	1,083							1,083
21	Other Tangible Plant	10,128							10,128
22	Adjustment for Plant Retirements	(130,251)							(130,251)
23		\$ (130,251)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,489,123
24	Total Water Plant in Service	\$6,619,374	\$ (130,251)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,489,123
25	Less: Accumulated Depreciation	1,158,669	(137,979)						1,020,690
26	Net Plant in Service (L24 - L25)	\$5,460,705	\$ 7,728	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,468,433
LESS:									
27	Contributions in Aid of Construction (CIAC)	\$1,269,935							\$ 1,269,935
28	Less: Accumulated Amortization								
36	Net CIAC (L27 - L28)	\$1,269,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,269,935
30	Advances in Aid of Construction (AIAC)							886,965	886,965
31	Customer Deposits	120,684							120,684
32	Meter Advances								
33	Deferred Income Tax Credits	61,793	2,983						64,776
ADD:									
34	Unamortized Finance Charges	12,904		(4,103)					8,801
35	Cash Working Capital Allowance	98,339						(8,804)	89,535
36	Debt Reserve Fund (proposed CoBank Loan)	129,039				(41,032)			88,007
37	Other Additions								
38	Total Rate Base	\$4,248,575	\$ 4,745	\$ (4,103)	\$ -	\$ (41,032)	\$ (8,804)	\$ (886,965)	\$ 3,312,416

Adjustment #:	Reference:
1. Plant Retirements	Sch. MDC-1
2. Unamortized Finance Charges	Sch. TJC-4
3. Not Used	
Adjustment #:	Reference:
4. Debt Reserve Fund Adj.	Sch. TJC-5
5. Cash & Working Capital	Sch. TJC-6
6. Advance in Aid of Construction	Sch. MDC-2

Rio Verde Utilities, Inc. - **WATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-4

RATE BASE ADJUSTMENT #2

ADJUSTMENT TO UNAMORTIZED FINANCE CHARGES TO REFLECT RUCO's RECOMMENDED LOAN

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	RUCO Recommended Loan	\$ 880,068	TJC-15
2	Finance Rate Charge	1.00%	DR# WAR #5-22
3	Finance Charges per RUCO	8,801	Line 1 X Line 2
4	Finance Charge per Company's Rate Filing	12,904	Schedule B-1, page 1
5	RUCO's Recommended Adjustment	(4,103)	Line 3 minus Line 4

RIO VERDE UTILITIES - WATER DIVISION
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
TEST YEAR ENDED DECEMBER 31, 1999
RATE BASE ADJUSTMENT #4
DEBT RESERVE FUND - RUCO PROPOSED LOAN

Surrebuttal
Schedule TJC-5

LINE NO.	DESCRIPTION	AMOUNT
1	RUCO Recommended New Loan	\$ 880,068
2	% Debt Reserve Requirement	10%
3	Debt Reserve Requirement	88,007
4	Debt Reserve Requirement per Company	129,039
5	Debt Reserve Fund Requirement Adjustment	<u>(41,032)</u>

RIO VERDE UTILITIES - WATER DIVISION
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TEST YEAR ENDED DECEMBER 31, 1999
RATE BASE ADJUSTMENT #5
WORKING CAPITAL

Surrebuttal
Schedule TJC-6

LINE NO.	DESCRIPTION		Total Amount
1	Total Operating Expense		\$ 750,181
2	Less: Income Tax	\$ 64,510	
3	Property Tax	25,195	
4	Depreciation	154,073	
5	Rate Case Expense	11,514	
6	Purchased Power	156,637	411,929
			338,252
7	1/8th Operating Expenses		42,282
	<u>ADD:</u>		
8	Purchased Power/24		6,527
9	Cash Working Capital RUCO Recommends		\$ 48,808
	<u>ADD:</u>		
10	Prepayments	39,823	
11	Material & Supplies	904	40,727
12	RUCO's Proposed Working Capital		\$ 89,535
13	Cash Working Capital per Company's Filing		98,339
14	RUCO's Recommended Adjustment		\$ (8,804)

Rio Verde Utilities, Inc. - **WATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-7

OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
REVENUES - WATER:						
1	Residential	\$ 278,575	\$ 3,092	\$ 281,667	\$ 196,292	\$ 477,959
2	Commercial	44,687	-	44,687		44,687
3	Industrial	-	-	-		-
4	Irrigation	589,663	-	589,663		589,663
5	Hook Up Fees	35,000	25,000	60,000		60,000
6	Misc. Service Revenues	5,274	625	5,899	500	6,399
7	C.A.P. Surcharge	-	-	-		-
8	Total Operating Revenues	\$ 953,199	\$ 28,717	\$ 981,916	\$ 196,792	\$ 1,178,708
OPERATING EXPENSES:						
9	Salaries & Wages	\$ 104,146	\$ (14,411)	\$ 89,735		\$ 89,735
10	Purchased Power	156,637	-	156,637		156,637
11	SRP Ground Water Charge	9,525	-	9,525		9,525
12	CAP Purchased Water	52,528	-	52,528		52,528
13	DWR Surcharge	5,329	-	5,329		5,329
14	Maintenance	86,213	(2,200)	84,013		84,013
15	Chemicals	1,007	-	1,007		1,007
16	Administrative Office	12,009	-	12,009		12,009
17	Automotive	4,712	-	4,712		4,712
18	RVUI Lab Operations	2,003	-	2,003		2,003
19	Outside Lab	7,134	-	7,134		7,134
20	Supplies	11	-	11		11
21	Postage/Express/UPS	1,804	-	1,804		1,804
22	Office Supplies	1,575	-	1,575		1,575
23	Payroll Taxes	11,504	-	11,504		11,504
24	Employee Benefits	7,399	-	7,399		7,399
25	Taxes & Licenses	41,820	(16,625)	25,195		25,195
26	Telephone	3,800	-	3,800		3,800
27	Insurance	7,539	-	7,539		7,539
28	Legal Fees	739	-	739		739
29	Professional Fees	6,248	-	6,248		6,248
30	Education & Training	205	-	205		205
31	Travel & Entertainment	593	-	593		593
32	Security Charges	862	-	862		862
33	Outside Services	27,839	-	27,839		27,839
34	Miscellaneous	139	-	139		139
35	Rate Case Expense	12,000	(486)	11,514		11,514
36	Depreciation	162,599	(8,526)	154,073		154,073
37	Income Taxes	23,017	41,493	64,510	83,970	148,480
38						
39	Total Operating Expenses	\$ 750,936	\$ (755)	\$ 750,181	\$ 83,970	\$ 834,151
40	Operating Income (Loss)	\$ 202,263	\$ 29,472	\$ 231,735	\$ 112,822	\$ 344,557

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ. #1	ADJ. #2	ADJ. #3	ADJ. #4	ADJ. #5	ADJ. #6	ADJ. #7	ADJ. #8	ADJ. #9	ADJ. #10	RUCO ADJUSTED
REVENUES:													
1	Water - Residential	\$ 278,575	3,092										281,667
2	Water - Commercial	44,687											44,687
3	Water - Irrigation	589,663											589,663
4	Water - Hook-Up Fee	35,000		25,000									60,000
5	Miscellaneous Service Revenues	5,274			625								5,899
6	C.A.P. Surcharge												
7	Total Revenues	\$ 953,199	\$ 3,092	\$ 25,000	\$ 625	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 981,916
OPERATING EXPENSES:													
8	Salaries & Wages	\$ 104,146											89,735
9	Purchased Power	156,637											156,637
10	SRP Ground Water Charge	9,525											9,525
11	CAP Purchased Water	52,528											52,528
12	DWP Surcharge	5,329											5,329
13	Maintenance	86,213				(2,200)							84,013
14	Chemicals	1,007											1,007
15	Administrative Office	12,009											12,009
16	Automotive	4,712											4,712
17	RVUI Lab Operations	2,003											2,003
18	Outside Lab	7,134											7,134
19	Supplies	11											11
20	Postage/Express/UPS	1,804											1,804
21	Office Supplies	1,575											1,575
22	Payroll Taxes	11,504											11,504
23	Employee Benefits	7,399											7,399
24	Taxes & Licenses	41,820											25,195
25	Telephone	3,800											3,800
26	Insurance	7,539											7,539
27	Legal Fees	739											739
28	Professional Fees	6,248											6,248
29	Education & Training	205											205
30	Travel & Entertainment	593											593
31	Security Charges	862											862
32	Outside Services	27,839											27,839
33	Miscellaneous	139											139
34	Rate Case Expense	12,000											11,514
35	Depreciation	162,599											154,073
36	Income Taxes	23,017											64,510
42													
43	Total Expenses	\$ 750,936	\$ -	\$ -	\$ -	\$ (2,200)	\$ (16,625)	\$ (14,411)	\$ -	\$ (486)	\$ (8,526)	\$ 41,493	\$ 750,181
44	Operating Income	\$ 202,263	\$ 3,092	\$ 25,000	\$ 625	\$ 2,200	\$ 16,625	\$ 14,411	\$ -	\$ 486	\$ 8,526	\$ (41,493)	\$ 231,735

Adjustment #:

- Reverse Company's Adj. #12 - Annualized bill count.
- Increase Water Hook-up Fee - maintain 60 customers.
- Meter Tests tariffed and performed but not charged.
- Canyon State Oil/Y2K Fuel Tank Rental.
- Property Taxes

Reference:

TJC Testimony
Sch. TJC-9
TJC Testimony
TJC Testimony
Sch. TJC-10

Adjustment #:

- Payroll Adjustment
- Not used
- Double-counts of Rate Case Exp.
- Depreciation & Amortization
- Income Taxes

Reference:

Sch. TJC-11
Sch. TJC-12
Sch. TJC-13
Sch. TJC-14

Rio Verde Utilities, Inc. - WATER DIVISION
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Test Year Ended December 31, 1999
OPERATING ADJUSTMENT #2
RUCO's PROPOSED HOOK-UP FEE ADJUSTMENT

Surrebuttal
Schedule TJC-9

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Proposed <u>Water</u> Hook-Up Fee Per RUCO Recommendation	\$ 1,000	Proposed by RUCO
2	Number of <u>Water</u> Hook-Ups Reflected as Revenue	60	Current Tariffed Amount
3	Hook-Up Revenue Allowed by RUCO's Proposal	60,000	Line 1 X Line 2
4	Proposed Hook-Up Fee Revenue per Company's Rate Application	35,000	Schedule C-1, page 1
5	RUCO's Proposed Increase in Revenue Hook-Up Fees	\$ 25,000	Line 3 - Line 4

RUCO's Property Tax Adjustment
New Full Cash Valuation Method

LINE NO.		1997	1998	1999	Total Revenues	3 Year Avg.
1	Proposed 3 Year Revenue Average:					
2		749,628	788,598	948,286	= 2,486,512	\$ 828,837
3	Multiplier for Revenues				X	2
4	Revenues for Full Cash Value					1,657,675
5	Add:					
6	Construction Work in Progress ("CWIP")				0	
7	Valuation of CWIP for Full Cash Value Computation				X 10%	0
8	Less:					
		Cost	Minus Accumulated Depreciation	Book Value		
9	Licensed Vehicles, at Net Book Value					
10	Licensed Golf Cart, acquired in 1991	2,700	620	2,080		(2,080)
11	Improvements to Golf Cart in 1997	1,448	111	1,337		(1,337)
12	1995 Ford Ranger, acquired in 1995	5,636	777	4,859		(4,859)
13	1999 Ford Ranger, acquired in 1999	8,494	130	8,364		(8,364)
14	Full Cash Value					1,641,035
15	Assessment Ratio				X	25%
16	Assessed Value					410,259
17	Property Tax Rate					5.4726%
18	Property Tax					\$ 22,452
19	Tax on Parcels					6
20	Property Tax at Proposed Rates					\$ 22,458
21	Property Taxes per Company's Rate Application (See * below)					39,083
22	RUCO's Recommended Adjustment.....					\$ (16,625)

References: Line #1 - Yearly Gross Revenues obtained from Company's Annual Reports
New Property Tax Methodology based on Revenues obtained from ADOR

* Test Year Adjusted Property Tax Expense in Company's Direct Filing - Sch. C-1, page 1 \$ 41,820

Less:

2/24/1999 ADHS	500	
3/24/1999 ACC	22	
6/1/1999 State of Arizona	15	
12/1/1999 Maricopa County Permit	2,200	\$ 2,737
		\$ 39,083

Rio Verde Utilities, Inc. - **WATER DIVISION**
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Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-11

OPERATING ADJUSTMENT #6
PAYROLL ADJUSTMENT

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	General Manager	\$ 60,000	Staff letter dated 11/13/2000
2	Assistant Operator I	34,320	Staff letter dated 11/13/2000
3	Assistant Operator II	27,560	Staff letter dated 11/13/2000
4	Lab Technician	<u>10,200</u>	Staff letter dated 11/13/2000
5	Payroll Subtotal	132,080	Summation of Line #1, 2, 3 and 4
6	Assistant General Manager	42,000	Testimony TJC
	Hours Overtime Pay:		
7	Assistant Operator I	4,412	RUCO DR# 6.1
8	Assistant Operator II	<u>979</u>	RUCO DR# 6.1
9	Total Payroll	179,471	Summation of Line #5, 6, 7 and 8
10	Water Division - RUCO's Payroll Recommendation	<u>89,735</u>	Water Division - 50% of Line #9
11	Payroll per Company's Application - Water	<u>104,146</u>	Company's Schedule C-1, page 1
12	RUCO's Recommended Adjustment - Water	<u><u>(14,411)</u></u>	Line #10 less Line #11

Rio Verde Utilities, Inc. - **WATER DIVISION**
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Test Year Ended December 31, 1999
OPERATING ADJUSTMENT #8
RUCO's RATE CASE EXPENSE ADJUSTMENTS

Surrebuttal
Schedule TJC-12

LINE NO.	DESCRIPTION	AMOUNT	REFERNCES
1	Company Estimated Rate Case Expense - Water	\$ 60,000	Schedule C-2, page 6
LESS:			
2	Over Estimates	4,860	NOTE (A): RUCO DR #3.6
3	Amount Allocated to Water Division - 50%	50%	
4	Amount to be Amortized	2,430	Line 2 X Line 3
5	Estimated Amortization Period in Years	5	Schedule C-2, page 6
6	Annual Adjustment Recommended by RUCO	\$ (486)	Line 4 X Line 5

NOTE (A):

"Per Legal Expense Estimate of Sallquist & Drummond, P.C."

	AMOUNT
Line 65 - Prepare Opening Brief.....	2,700
Line 66 - Review Other Parties Opening Briefs.....	900
Line 67 - Prepare Reply Brief.....	1,260
	<u>4,860</u>

Rio Verde Utilities, Inc. - **WATER DIVISION**

Docket No. WS-02156A-00-0321 and WS-02156A-00-0323

Test Year Ended December 31, 1999

OPERATING ADJUSTMENT #9

Depreciation & Amortization Expense Adjustment - Water

Surrebuttal
Schedule TJC-13

LINE NO.	DESCRIPTION	AMOUNT	REFERENCES
1	Total Plant	\$ 6,446,231	TJC-3
2	Depreciation Rate	3.064119%	Schedule C-2, page 4
3	Depreciation Expense	197,520	Line 1 X Line 2
4	Total CIAC	1,417,924	Company's G/L, page 104
5	Amortization Rate	3.064119%	Schedule C-2, page 4
6	Amortization Income	43,447	Line 4 X Line 5
7	Net Depreciation & Amortization	154,073	Line 3 minus Line 6
8	Net Depreciation & Amortization per Company	162,599	Schedule C-1, page 1 - Test Year Adjusted Results
9	RUCO's Recommended Adjustment	(8,526)	Line 7 minus Line 8

OPERATING ADJUSTMENT #10
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	<u>Calculation of Arizona Income Tax</u>				
1	Operating Income (Schedule TJC-7, Column (C), L40)	\$ 231,735			
2	Income Taxes Used to Calculate Operating Income (Schedule TJC-7, L37)	\$ 64,510			
3	Operating Income Before Income Taxes (L1 + L2)		\$ 296,244		
4	Less: Synchronized Interest (L23)		\$ 108,362		
5	Arizona Taxable Income (L3 - L4)			\$ 187,882	
6	Arizona State Income Tax Rate			6.97%	
7	Arizona Income Tax (L5 X L 6)				\$ 13,092
	<u>Calculation of Federal Income Tax</u>				
8	Operating Income Before Income Taxes (L3)			\$ 296,244	
9	Less: Arizona Income Tax (L7)			\$ 13,092	
10	Less: Synchronized Interest (L22)			\$ 108,362	
11	Federal Taxable Income (L8 + L9 + L10)			\$ 174,790	
		<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Tax</u>	
12	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 50,000	15.00%	\$ 7,500	
13	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 25,000	25.00%	\$ 6,250	
14	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 25,000	34.00%	\$ 8,500	
15	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 74,790	39.00%	\$ 29,168	
16	Federal Tax on Fifth Income Bracket (\$335,001 to \$10 million) @ 34%	\$ -	34.00%	\$ -	
17	Total Federal Income Tax (Shown in Column (D))	\$ 174,790			\$ 51,418
18	Combined Federal and State Income Tax - RUCO(L7 + L17)				\$ 64,510
19	Income Tax - Company (Company Schedule C-1)				23,017
20	RUCO Adjustment				\$ 41,493
	<u>Calculation of Interest Synchronization</u>				
21	Rate Base (Schedule TJC-2, Col. (C), Line 15)	\$ 3,312,416			
22	Weighted Average Cost of Debt (Schedule TJC-17, Col. [F], L1 + L2)		3.27%		
23	Synchronized Interest (L21 X L22)	\$ 108,362			

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	1.0000			
2	Less: Combined Federal and State Tax Rate (Line 10)	0.4267			
3	Subtotal (L1 - L2)	0.5733			
4	Revenue Conversion Factor (L1 / L3)	1.7443			
<u>Calculation of Effective Tax Rate:</u>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Line 32)	38.3754%			
9	Effective Federal Income Tax Rate (L7 x L8)	35.7014%			
10	Combined Federal and State Income Tax Rate (L6 + L9)	42.6694%			
11	Required Operating Income (Schedule TJC-1, Column (B), Line 5)	\$ 344,557			
12	Adjusted Test Year Operating Income (Loss) (Schedule TJC-7, Line 40)	\$ 231,735			
13	Required Increase in Operating Income (L11 - L12)		\$ 112,822		
14	Income Taxes on Recommended Revenue (Col. (D), L31)	\$ 148,480			
15	Income Taxes on Test Year Revenue (Col. (B), L31)	\$ 64,510			
16	Required Increase in Revenue to Provide for Income Taxes (L14 - L15)		\$ 83,970		
17	Total Required Increase in Revenue (L13 + L16)		\$ 196,792		
<u>Calculation of Income Tax:</u>					
		Test Year		RUCO Recommended	
18	Revenue (Schedule TJC-8, Col. (C), Line 8 & Sch. TJC-1, Col. (B), Line 9)	\$ 981,916		\$ 1,178,708	
19	Less: Operating Expenses Excl. Inc. Tax (Sch TJC-7, Col. (C), L9 thru L36)	\$ 685,671		\$ 685,671	
20	Less: Synchronized Interest (L35)	\$ 108,362		\$ 108,362	
21	Arizona Taxable Income (L18 - L19 - L20)	\$ 187,882		\$ 384,674	
22	Arizona State Income Tax Rate	6.97%		6.97%	
23	Arizona Income Tax (L21 x L22)		\$ 13,092		\$ 26,804
24	Federal Taxable Income (L21 - L23)	\$ 174,790		\$ 357,870	
25	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
26	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	
27	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
28	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 29,168		\$ 91,650	
29	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ 7,776	
30	Total Federal Income Tax		\$ 51,418		\$ 121,676
31	Combined Federal and State Income Tax (L23 + L30)		\$ 64,510		\$ 148,480
32	Applicable Federal Income Tax Rate [Col. (D), L30 - Col. (B), L30] / [Col. (C), L24 - Col. (A), L24]				38.3754%
<u>Calculation of Interest Synchronization:</u>					
33	Rate Base (Schedule TJC-2, Col. (C), Line 15)	\$ 3,312,416			
34	Weighted Average Cost of Debt (Schedule TJC-17, Col. [F], L1 + L2)	3.27%			
35	Synchronized Interest (L33 X L34)	\$ 108,362			

RIO VERDE UTILITIES - WATER DIVISION

Docket No. WS-02156A-00-0321 and WS-02156A-00-0323

TEST YEAR ENDED DECEMBER 31, 1999

ADJUSTMENT TO REQUESTED NEW DEBT FINANCING BY RIO VERDE UTILITIES

Surrebuttal

Schedule TJC-15

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT ADDITIONS 1998 & 1999	(B) COMPANY REQUESTED PLANT AMOUNT TO BE FINANCED	(C) LESS AMOUNT FINANCED WITH CIAC	(D) RUCO RECOMMENDED LOAN AMOUNT TO BE APPROVED
1	311	Electric Pumping Equipment	\$ 302,085	\$ 302,085	\$0	\$ 302,085
2	331	Transmission & Distribution Mains	1,115,417	988,304	537,434	577,983

TOTAL AMOUNT OF DEBT FINANCING REQUESTED BY COMPANY \$ 1,290,389

TOTAL AMOUNT OF DEBT FINANCING RECOMMENDED BY RUCO..... \$ 880,068

RUCO RECOMMENDED ADJUSTMENT ON DEBT FINANCING..... \$ (410,321)

NOTE:

- Column (A): Refer to Company's Rate Case Filing - Schedule B-2 pages 2c & 2d - 1998 & 1999 Plant Additions.
- Column (B): Company's response to RUCO's Data Request #1.30, marked DR-1.
- Column (C): Data was obtained from the Company's response to RUCO's Data Request #2.7 - Contributed Plant.
- Column (D): Column (A) minus Column (C).

Rio Verde Utilities, Inc. - **WATER DIVISION**
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Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-16

COST OF DEBT - PROPOSED LOAN ADJUSTMENT

LINE NO.	DESCRIPTION	AMOUNT	TOTALS
1	Total Amount of RUCO Recommended New Loan - Water	\$ 880,068	
2	Fixed APR on New Proposed CoBank Loan	X 9.19%	
3	Total Annual Interest Expense on RUCO's Recommended Loan Amount		\$ 80,878
LESS:			
4	CoBank's Required Debt Reserve Fund - 10% of Original Loan Principal		
5	Line 1 X 10%.....	\$ 88,007	
6	Interest Rate to be Earned on RUCO's Recommended Proposed CoBank Loan	X 4.50%	
7	Total Annual Interest Earnings on CoBank's Required Debt Reserve		- 3,960
8	CoBank Patronage Dividend (See Note A below)		6,513
9	Total of Line #3 less Line #7 and #8		\$ 70,405
ADD:			
10	Annual Amortization of New Loan, 1% Finance Charge - Amortized over 20 yrs.		440
11	Total Annual Effective Interest on New Loan		\$ 70,845
12	Effective Interest Rate - Line 9 / Line 1		8.05%

Note A: The CoBank Patronage Dividend is a computation proposed by both the Company and ACC's Staff and adopted by RUCO in the instant case. It is derived by multiplying a factor of 0.74% by the average annual outstanding balance of each loan with CoBank. The patronage dividend is similar to a cooperative membership investment.

RIO VERDE UTILITIES - WATER DIVISION
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TEST YEAR ENDED DECEMBER 31, 1999
COST OF CAPITAL

Surrebuttal
Schedule TJC-17

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	Long-Term Debt: Second Rio Verde Co. Loan	\$ 566,223		\$ 566,223	14.66%	9.80%	1.44%
2	CoBank Proposed Loan	1,290,389	(410,321)	880,068	22.79%	8.05%	1.83%
3	Equity	2,415,521		2,415,521	62.55%	11.40%	7.13%
4	TOTAL	<u>\$ 4,272,133</u>		<u>\$ 3,861,812</u>	<u>100.00%</u>		<u>10.40%</u>

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) RUCO ORIGINAL COST
1	Adjusted Rate Base	\$ 2,967,137 (A)	\$ 2,905,529
2	Adjusted Operating Income	\$ 183,425	\$ 159,708
3	Current Rate of Return (L2 / L1)	6.18%	5.50%
4	Required Rate of Return	10.56%	9.08%
5	Required Operating Income (L4 * L1)	\$ 313,330	\$ 263,963
6	Operating Income Deficiency (L5 - L2)	\$ 129,905	\$ 104,255
7	Gross Revenue Conversion Factor (Sch. TJC-14)	1.6469	1.5001
8	Required Revenue Increase (L7 * L6)	\$ 213,940	\$ 156,389
9	Adjusted Test Year Revenue	\$ 611,279	\$ 631,279
10	Proposed Annual Revenue (L8 + L9)	\$ 825,219	\$ 787,668
11	Required Increase in Revenue (%)	35.00%	24.77%
12	Requested Rate of Return on Common Equity (%)	12.75%	11.40%

NOTES:

(A) The Company's application reflects a rate base of \$2,967,530. The difference between the amount shown in the application as opposed to the amount on TJC-1 - Line #1 is the result of a transposition error in the Company's reflection of the "Wastewater Treatment Plant Excess Capacity".

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-2

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	\$ 5,493,910	\$ (78,431)	\$ 5,415,479
2	Less: Accumulated Depreciation	878,277	(60,314)	817,963
3	Net Plant in Service	<u>\$ 4,615,633</u>	<u>\$ (18,117)</u>	<u>\$ 4,597,516</u>
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 1,943,194	\$ -	\$ 1,943,194
5	Less: Accumulated Amortization	-	-	-
6	Net CIAC	<u>1,943,194</u>	<u>-</u>	<u>1,943,194</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	-	-	-
9	Meter Advances	-	-	-
10	Deferred Income Tax Credits	141,682	4,852	146,534
	<u>ADD:</u>			
11	Cash Working Capital	64,924	(4,545)	60,379
12	Unamortized Finance Charges	29,016	(3,099)	25,917
13	Debt Reserve Fund - Existing	224,500	-	224,500
14	Debt Reserve Fund - Proposed	<u>117,940</u>	<u>(30,995)</u>	<u>86,945</u>
15	Total Rate Base	<u>\$ 2,967,137</u>	<u>\$ (61,608)</u>	<u>\$ 2,905,529</u>

REFERENCES:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(H) RUCO ADJUSTED
PLANT IN SERVICE:								
1	Organization Cost	\$ 1,380						1,380
2	Franchise Cost	-						-
3	Land and Land Rights	50,513						50,513
4	Structures and Improvements	277,883						277,883
5	Sewer Line	1,723,698						1,723,698
6	Services	560,154						560,154
7	Lift Station	194,885						194,885
8	Effluent Pump	29,905						29,905
9	Treatment Plant	3,686,714						3,686,714
10	Less: Removal of 35% Excess Plant	(1,290,350)					(26,480)	(1,290,350)
11	Effluent Lines	91,869						91,869
12	Transportation Equipment	36,680						36,680
13	Tools and Work Equipment	2,303						2,303
14	Laboratory Equipment	58,223						58,223
15	Communications Equipment	7,950						7,950
16	Other Tangible Plant	62,103						62,103
17	Adjustment for Plant Retirements	(51,951)						(51,951)
18								
19	Total Plant in Service	\$ 5,493,910	\$ (51,951)	\$ -	\$ -	\$ -	\$ (26,480)	\$ 5,415,479
20	Less: Accumulated Depreciation	878,277	(60,314)					817,963
21	Net Plant in Service (L18 - L19)	\$ 4,615,633	\$ 8,363	\$ -	\$ -	\$ -	\$ (26,480)	\$ 4,597,516
LESS:								
22	Contributions in Aid of Construction (CIAC)	\$ 1,943,194						\$ 1,943,194
23	Less: Accumulated Amortization	-						-
24	Net CIAC (L21 - L22)	\$ 1,943,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,943,194
25	Advances in Aid of Construction (AIAC)	-						-
26	Customer Deposits	-						-
27	Water Advances	-						-
28	Deferred Income Tax Credits	141,682	4,852					146,534
ADD:								
29	Unamortized Finance Charges	29,016		(3,099)				25,917
30	Working Capital Allowance	64,924				\$ (4,545)		60,379
31	Debt Reserve Fund (existing CoBank Loan)	224,500						224,500
32	Debt Reserve Fund (proposed CoBank Loan)	117,940			(30,995)			86,945
33	Projected Capital Expenditures	-						-
34	Deferred Debits	-						-
35	Other Additions	-						-
36	Total Rate Base	\$ 2,967,137	\$ 3,511	\$ (3,099)	\$ (30,995)	\$ (4,545)	\$ (26,480)	\$ 2,905,529

ADJUSTMENT #:
1. Retired Plant
2. Unamortized Finance Charge
3. Debt Reserve Fund - Proposed
4. Working Capital
5. Plant Held for Future Use (Effluent Piping),
per RUCO DR #4.4, 5.3, and JACA-17.

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-4

RATE BASE ADJUSTMENT #2

ADJUSTMENT TO UNAMORTIZED FINANCE CHARGES TO REFLECT RUCO's RECOMMENDED LOAN

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	RUCO Recommended Loan	\$ 869,452	TJC-15
2	Finance Rate Charge	1.00%	WAR #5-22
3	Finance Charges per RUCO	8,695	Line 1 X Line 2
4	Finance Charge per Company's Rate Filing	11,794	Schedule B-2, page 1
5	RUCO's Recommended Adjustment	(3,099)	Line 3 minus Line 4

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999
RATE BASE ADJUSTMENT #3
DEBT RESERVE FUND - RUCO PROPOSED LOAN

Surrebuttal
Schedule TJC-5

LINE NO.	DESCRIPTION	AMOUNT
1	RUCO Recommended New Loan	\$ 869,452
2	% Debt Reserve Requirement	10%
3	Debt Reserve Requirement per RUCO	86,945
4	Debt Reserve Requirement per Company	117,940
5	Debt Reserve Fund Requirement Adjustment	(30,995)

RIO VERDE UTILITIES -WASTEWATER DIVISION
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TEST YEAR ENDED DECEMBER 31, 1999
RATE BASE ADJUSTMENT #4
WORKING CAPITAL

Surrebuttal
Schedule TJC-6

LINE NO.	DESCRIPTION	Total Amount
1	Total Operating Expense	\$ 471,571
2	Less: Income Tax	1,167
3	Property Tax	19,780
4	Depreciation	80,240
5	Rate Case Expense	11,514
6	Purchased Power	65,656
7		<u>178,357</u>
		293,214
8	1/8th Operating Expenses	36,652
	Add:	
9	Purchased Power/24	<u>2,736</u>
10	Cash Working Capital RUCO Recommends	<u>39,387</u>
11	Prepayments	20,992
12	Materials & Supplies	<u>0</u>
13	Total RUCO Working Capital	60,379
14	Working Capital per Company	64,924
15	RUCO's Recommended Adjustment	<u>\$ (4,545)</u>

OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
REVENUES - WASTEWATER:						
1	Residential	\$ 477,328	\$ -	\$ 477,328		\$ 477,328
2	Commercial	18,188	-	18,188		18,188
3	Effluent	43,422	-	43,422		43,422
4	Hook Up Fees	70,000	20,000	90,000		90,000
5	Other Sewer	2,341	-	2,341		2,341
6	Service Fees	-	-	-		-
7	Total Operating Revenues	\$ 611,279	\$ 20,000	\$ 631,279	\$ 156,389	\$ 787,668
OPERATING EXPENSES:						
8	Salaries & Wages	\$ 102,061	\$ (12,326)	\$ 89,735		\$ 89,735
9	Purchased Power	65,656	-	65,656		65,656
10	Maintenance - Plant	78,032	-	78,032		78,032
11	Maintenance - Electronics	375	-	375		375
12	Equipment Repairs	816	-	816		816
13	Chemicals	13,264	-	13,264		13,264
14	Sludge Processing	14,676	-	14,676		14,676
15	Administrative Office	12,000	-	12,000		12,000
16	Automotive	5,538	-	5,538		5,538
17	RVUI Lab Operations	5,670	-	5,670		5,670
18	Outside Lab	828	-	828		828
19	Supplies	11	-	11		11
20	Postage/Express/UPS	1,823	-	1,823		1,823
21	Office Supplies	1,556	-	1,556		1,556
22	Payroll Taxes	11,490	-	11,490		11,490
23	Employee Benefits	7,399	-	7,399		7,399
24	Taxes & Licenses	26,631	(6,851)	19,780		19,780
25	Telephone	2,390	-	2,390		2,390
26	Insurance	8,772	-	8,772		8,772
27	Legal Fees	138	-	138		138
28	Professional Fees	6,103	-	6,103		6,103
29	Education & Training	1,740	-	1,740		1,740
30	Travel & Entertainment	576	-	576		576
31	Security Charges	1,724	-	1,724		1,724
32	Outside Services	27,839	-	27,839		27,839
33	Miscellaneous	719	-	719		719
34	Rate Case Expense	12,000	(486)	11,514		11,514
35	Depreciation	91,101	(10,861)	80,240		80,240
36	Patronage Divided Sewer	(14,600)	14,600	-		-
37	Income Taxes	(58,474)	59,641	1,167	52,134	53,301
38	Total Operating Expenses	427,854	43,717	471,571	52,134	523,705
39	Operating Income (Loss)	183,425	(23,717)	159,708	104,255	263,963

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ. #1	ADJ. #2	ADJ. #3	ADJ. #4	ADJ. #5	ADJ. #6	ADJ. #7	RUCO ADJUSTED
REVENUES:										
1	Sewer - Residential	\$ 477,328								\$ 477,328
2	Sewer - Commercial	18,188								18,188
3	Sewer - Effluent	43,422								43,422
4	Sewer - Hook-Up Fee	70,000	20,000							90,000
5	Other Sewer	2,341								2,341
6	Service Fees									
7	Total Revenues	611,279	20,000							\$ 631,279
OPERATING EXPENSES:										
8	Salaries & Wages	\$ 102,061		\$ (12,326)						\$ 89,735
9	Purchased Power	65,656								65,656
10	Maintenance - Sewer Plant	78,032								78,032
11	Maintenance - Electronics	375								375
12	Equipment Repairs	816								816
13	Chemicals	13,264								13,264
14	Sludge Processing	14,876								14,876
15	Administrative Office	12,000								12,000
16	Automotive	5,538								5,538
17	RVUI Lab Operations	5,670								5,670
18	Outside Lab	828								828
19	Supplies	11								11
20	Postage/Express/UPS	1,823								1,823
21	Office Supplies	1,556								1,556
22	Payroll Taxes	11,490								11,490
23	Employee Benefits	7,399								7,399
24	Taxes & Licenses	26,631			(6,851)					19,780
25	Telephone	2,390								2,390
26	Insurance	8,772								8,772
27	Legal Fees	138								138
28	Professional Fees	6,103								6,103
29	Education & Training	1,740								1,740
30	Travel & Entertainment	576								576
31	Security Charges	1,724								1,724
32	Outside Services	27,839								27,839
33	Miscellaneous	719								719
34	Rate Case Expense	12,000				(486)	(10,861)			11,514
35	Depreciation	91,101						14,600		80,240
36	Patronage Dividend Sewer	(14,600)								-
37	Income Taxes	(58,474)				(486)	(10,861)			1,167
38	Total Expenses	427,854		(12,326)	(6,851)	(486)	(10,861)	14,600	59,641	471,571
39	Operating Income	\$ 183,425	\$ 20,000	\$ 12,326	\$ 6,851	\$ 486	\$ 10,861	\$ (14,600)	\$ (59,641)	\$ 159,708

Adjustment #:	Reference:	Adjustment #:	Reference:
1. Increase Sewer Hook-up Fee - maintain 60 customers.	Sch. TJC-9	4. Double-counts of Rate Case Exp.	Sch. TJC-12
2. Payroll Adjustment	Sch. TJC-10	5. Depreciation & Amortization	Sch. TJC-13
3. Property Tax Adjustment	Sch. TJC-11	6. Transfer Patronage Dividend to Cost of Debt	Sch. TJC-16
		7. Income Tax Expense	Sch. TJC-14

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999
OPERATING ADJUSTMENT #1
RUCO's PROPOSED HOOK-UP FEE ADJUSTMENT

Surrebuttal
Schedule TJC-9

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Proposed <u>Sewer</u> Hook-Up Fee Per RUCO Recommendation	\$ 1,500	Proposed by RUCO
2	Number of <u>Sewer</u> Hook-Ups Reflected as Revenue	60	Current Tariffed Amount
3	Hook-Up Revenue Allowed by RUCO's Proposal	90,000	Line 1 X Line 2
4	Proposed Hook-Up Fee Revenue per Company's Rate Application	70,000	Schedule C-1, page 1
5	RUCO's Proposed Increase in Revenue Hook-Up Fees	\$ 20,000	Line 3 - Line 4

RUCO's Property Tax Adjustment
New Full Cash Valuation Method

LINE NO.		1997	1998	1999	Total Revenues	3 Year Avg.
1	Proposed 3 Year Revenue Average:					
2		506,598	540,258	587,969	= 1,634,825	\$ 544,942
3	Multiplier for Revenues					X 2
4	Revenues for Full Cash Value					1,089,883
5	Add:					
6	Construction Work in Progress ("CWIP")					0
7	Valuation of CWIP for Full Cash Value Computation				X 10%	0
8	Less:					
9	Licensed Vehicles, at Net Book Value	Cost	Minus Accumulated Depreciation	Book Value		
12	1995 Ford Ranger, acquired in 1995	5,636	660	4,976		(4,976)
13	1999 Ford Ranger, acquired in 1999	8,494	111	8,383		(8,383)
14	Full Cash Value					1,076,524
15	Assessment Ratio				X 25%	
16	Assessed Value					269,131
17	Property Tax Rate					5.4726%
18	Property Tax					\$ 14,728
19	Tax on Parcels					-
20	Property Tax at Proposed Rates					\$ 14,728
21	Property Taxes per Company's Rate Application(See * below)					21,579
22	RUCO's Recommended Adjustment.....					\$ (6,851)

References:

Line #1 - Yearly Gross Revenues obtained from Company's Annual Reports
New Property Tax Methodology based on Revenues obtained from ADOR

* Test Year Adjusted Property Tax Expense in Company's Direct Filing - Sch. C-1, page 1 \$ 26,631

Less:

1/1/1999 Dept. of Arizona	1,000	
1/12/1999 Dept. of Arizona	15	
2/24/1999 ADHS	500	
3/24/1999 ACC	22	
4/17/1999 Dept. of Arizona	1,400	
6/1/1999 State of Arizona	15	
12/1/1999 Maricopa County Permit	2,100	\$ 5,052
		\$ 21,579

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999
OPERATING ADJUSTMENT #2
PAYROLL ADJUSTMENT

Surrebuttal
Schedule TJC-11

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	General Manager	\$ 60,000	Staff letter dated 11/13/2000
2	Assistant Operator I	34,320	Staff letter dated 11/13/2000
3	Assistant Operator II	27,560	Staff letter dated 11/13/2000
4	Lab Technician	<u>10,200</u>	Staff letter dated 11/13/2000
5	Payroll Subtotal	132,080	Summation of Line #1, 2, 3 and 4
6	Assistant General Manager	42,000	Testimony TJC
	Hours Overtime Pay:		
7	Assistant Operator I	4,412	RUCO DR# 6.1
8	Assistant Operator II	<u>979</u>	RUCO DR# 6.1
9	Total Payroll	179,471	Summation of Line #5, 6, 7 and 8
10	Water Division - RUCO's Payroll Recommendation	<u>89,735</u>	Water Division - 50% of Line #9
11	Payroll per Company - Sewer	<u>102,061</u>	Company's Schedule C-1, page 1
12	RUCO's Recommended Adjustment - Sewer	<u>(12,326)</u>	Line #10 less Line #11

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999
OPERATING ADJUSTMENT #4
RUCO's RATE CASE EXPENSE ADJUSTMENTS

Surrebuttal
Schedule TJC-12

LINE NO.	DESCRIPTION	AMOUNT	REFERENCES
1	Company Estimated Rate Case Expense - Sewer	\$ 60,000	Schedule C-2, page 6
LESS:			
2	Over Estimates	4,860	NOTE (A)
3	Amount Allocated to Wastewater Division - 50%	50%	
4	Amount to be Amortized	2,430	Line 2 X Line 3
5	Estimated Amortization Period in Years	5	Schedule C-2, page 6
6	Annual Adjustment Recommended by RUCO	\$ (486)	Line 4 X Line 5

NOTE (A):

"Per Legal Expense Estimate of Sallquist & Drummond, P.C."

	AMOUNT
Line 65 - Prepare Opening Brief.....	2,700
Line 66 - Review Other Parties Opening Briefs.....	900
Line 67 - Prepare Reply Brief.....	1,260
	<u>4,860</u>

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
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Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-13

OPERATING ADJUSTMENT #5

DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	AMOUNT	REFERENCES
1	Total Plant	\$ 5,363,586	TJC-3
2	Depreciation Rate	<u>2.603750%</u>	Schedule C-2, page 4
3	Depreciation Expense	139,654	Line 1 X Line 2
4	Total CIAC	2,281,879	Company's G/L, page 106
5	Amortization Rate	<u>2.603750%</u>	Schedule C-2, page 4
6	Amortization Income	59,414	Line 4 X Line 5
7	Net Depreciation & Amortization	80,240	Line 3 minus Line 6
8	Net Depreciation & Amortization per Company	<u>91,101</u>	Schedule C-1, page 1 - Test Year Adjusted Results
9	RUCO's Recommended Adjustment	<u>(10,861)</u>	Line 7 minus Line 8

RIO VERDE UTILITIES - WASTEWATER DIVISION
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TEST YEAR ENDED DECEMBER 31, 1999
OPERATING ADJUSTMENT #6
INCOME TAX EXPENSE

Surrebuttal
Schedule TJC-14
Page 1 of 2

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	<u>Calculation of Arizona Income Tax</u>				
1	Operating Income (Schedule TJC-7, L39)	\$ 159,708			
2	Income Taxes Used to Calculate Operating Income (Schedule TJC-7, L49)	\$ 1,167			
3	Operating Income Before Income Taxes (L1 + L2)		\$ 160,874		
4	Less: Synchronized Interest (L23)		\$ 155,298		
5	Arizona Taxable Income (L3 - L4)			\$ 5,576	
6	Arizona State Income Tax Rate			6.97%	
7	Arizona Income Tax (L5 X L 6)				\$ 389
	<u>Calculation of Federal Income Tax</u>				
8	Operating Income Before Income Taxes (L3)			\$ 160,874	
9	Less: Arizona Income Tax (L7)			\$ 389	
10	Less: Synchronized Interest (L22)			\$ 155,298	
11	Federal Taxable Income (L8 + L9 + L10)			\$ 5,187	
		<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Tax</u>	
12	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 5,187	15.00%	\$ 778	
13	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -	25.00%	\$ -	
14	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	34.00%	\$ -	
15	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	39.00%	\$ -	
16	Federal Tax on Fifth Income Bracket (\$335,001 to \$10 million) @ 34%	\$ -	34.00%	\$ -	
17	Total Federal Income Tax (Shown in Column (D))	\$ 5,187			\$ 778
18	Combined Federal and State Income Tax - RUCO(L7 + L17)				\$ 1,167
19	Income Tax - Company (Company Schedule C-1)				(58,474)
20	RUCO Adjustment				\$ 59,641
	<u>Calculation of Interest Synchronization</u>				
21	Rate Base (Schedule TJC-2, Col. (C), Line 15)	\$ 2,905,529			
22	Weighted Average Cost of Debt (Schedule TJC-17, Col. (F), L1 + L2)		5.34%		
23	Synchronized Interest (L21 X L22)	\$ 155,298			

RIO VERDE UTILITIES - WASTEWATER DIVISION
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
TEST YEAR ENDED DECEMBER 31, 1999
GROSS REVENUE CONVERSION FACTOR

Surrebuttal
Schedule TJC-14
Page 2 of 2

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	1.0000			
2	Less: Combined Federal and State Tax Rate (Line 10)	0.3334			
3	Subtotal (L1 - L2)	0.6666			
4	Revenue Conversion Factor (L1 / L3)	1.5001			
<u>Calculation of Effective Tax Rate:</u>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Line 32)	28.3430%			
9	Effective Federal Income Tax Rate (L7 x L8)	26.3681%			
10	Combined Federal and State Income Tax Rate (L6 + L9)	33.3361%			
11	Required Operating Income (Schedule TJC-1, Col. (B), Line 5)	\$ 263,963			
12	Adjusted Test Year Operating Income (Loss) (Schedule TJC-7, Line 39)	\$ 159,708			
13	Required Increase in Operating Income (L11 - L12)		\$ 104,255		
14	Income Taxes on Recommended Revenue (Col. (D), L31)	\$ 53,301			
15	Income Taxes on Test Year Revenue (Col. (B), L31)	\$ 1,167			
16	Required Increase in Revenue to Provide for Income Taxes (L14 - L15)		\$ 52,134		
17	Total Required Increase in Revenue (L13 + L16)		\$ 156,389		
<u>Calculation of Income Tax:</u>					
18	Revenue (Schedule TJC-8, Col.(C), Line 7 & Sch. TJC-1, Col. (B), Line 9)	\$ 631,279		RUCO Recommended	\$ 787,668
19	Less: Operating Expenses Excl. Inc. Tax (Sch TJC-7, Col. (C), L8 thru L48)	\$ 470,405			\$ 470,405
20	Less: Synchronized Interest (L35)	\$ 155,298			\$ 155,298
21	Arizona Taxable Income (L18 - L19 - L20)	\$ 5,576			\$ 161,965
22	Arizona State Income Tax Rate	6.97%			6.97%
23	Arizona Income Tax (L21 x L22)		\$ 389		\$ 11,286
24	Federal Taxable Income (L21 - L23)	\$ 5,187			\$ 150,679
25	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 778			\$ 7,500
26	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -			\$ 6,250
27	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -			\$ 8,500
28	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -			\$ 19,765
29	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -			\$ -
30	Total Federal Income Tax		\$ 778		\$ 42,015
31	Combined Federal and State Income Tax (L23 + L30)		\$ 1,167		\$ 53,301
32	Applicable Federal Income Tax Rate [Col. (D), L30 - Col. (B), L30] / [Col. (C), L24 - Col. (A), L24]				28.3430%
<u>Calculation of Interest Synchronization:</u>					
33	Rate Base (Schedule TJC-2, Col. (C), Line 15)	\$ 2,905,529			
34	Weighted Average Cost of Debt (Schedule TJC-17, Col. [F], L1 + L2)	5.34%			
35	Synchronized Interest (L33 X L34)	\$ 155,298			

RIO VERDE UTILITIES - WASTEWATER DIVISION
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
TEST YEAR ENDED DECEMBER 31, 1999
REQUESTED NEW DEBT FINANCING BY RIO VERDE UTILITIES

Surrebuttal
Schedule TJC-15

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT ADDITIONS 1998 & 1999	(B) COMPANY REQUESTED PLANT AMOUNT TO BE FINANCED	(C) LESS AMOUNT OF CONTRIBUTIONS PER COMPANY	(D) RUCO RECOMMENDED LOAN AMOUNT TO BE APPROVED
1	361	Sewer Line	\$ 697,020	\$ 135,095	\$ 677,373	\$ 19,647
2	368	Lift Station	194,885	194,885	194,497	388
3	380	Treatment Plant	849,417	849,417	0	849,417
TOTAL AMOUNT OF DEBT FINANCING REQUESTED BY COMPANY				\$ 1,179,397		
TOTAL AMOUNT OF DEBT FINANCING RECOMMENDED BY RUCO						\$ 869,452
RUCO RECOMMENDED ADJUSTMENT ON DEBT FINANCING				\$ (309,945)		

NOTE :

Column (A): Refer to Company's Rate Case Application Filing - Schedule B-2 pages 2c & 2d - 1998 & 1999 Plant Additions.
Column (B): Refer to Company's response in RUCO's Data Request #4.5; labeled DR-1, page 1.
Column (C): Refer to Company's DR #1 in response to RUCO's Data Request #4.5.
Column (D): Column (A) minus Column (C) above.

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule TJC-16

COST OF DEBT - PROPOSED LOAN ADJUSTMENT

LINE NO.	DESCRIPTION	AMOUNT	TOTALS
1	Total Amount of RUCO Recommended New Loan - WasteWater	\$ 869,452	
2	Fixed APR on New Proposed CoBank Loan	X 9.19%	
3	Total Annual Interest Expense on RUCO's Recommended Loan Amount		\$ 79,903
LESS:			
4	CoBank's Required Debt Reserve Fund - 10% of Original Loan Principal		
5	Line 1 X 10%.....	\$ 86,945	
6	Interest Rate to be Earned on RUCO's Recommended Proposed CoBank Loan	X 4.50%	
7	Total Annual Interest Earnings on CoBank's Required Debt Reserve		3,913
8	CoBank Patronage Dividend (See Note A below)		6,434
9	Total of Line #3 less Line #7 and #8		\$ 69,556
ADD:			
10	Annual Amortization of New Loan, 1% Finance Charge - Amortized over 20 yrs.		435
11	Total Annual Effective Interest Payable on New Loan		69,991
12	Effective Interest Rate - Line 9 / Line 1		8.05%
COST OF DEBT - EXISTING CoBANK LOAN			
13	Test Year Interest Expense - 1/2 Fixed Rate and 1/2 Variable Rate		\$ 168,680
LESS:			
14	CoBank's Required Debt Reserve Fund - Schedule E-9, Note 4.	\$ 224,500	
15	Interest Rate Earned on Existing CoBank Loan Debt Reserve Fund	X 4.50%	
16	Total Annual Interest Earnings on CoBank's Required Debt Reserve		10,103
17	CoBank Patronage Dividend (See Note A below)		13,827
18	Total of Line #12 less Line #15 and #16		\$ 144,751
ADD:			
19	Annual Amortization of Loan, 1% Finance Charge - Amortized over 15 yrs.		1,148
20	Total Annual Interest Earnings on CoBank's Required Debt Reserve		\$ 145,899
21	Test Year End Debt Balance		\$ 1,844,602
22	Effective Interest Rate - Line 14 / Line 15		7.91%

Note A: The CoBank Patronage Dividend is a computation proposed by both the Company and ACC's Staff and adopted by RUCO in the instant case. It is derived by multiplying a factor of 0.74% by the average annual outstanding balance of each loan with CoBank. The patronage dividend is similar to a cooperative membership investment.

RIO VERDE UTILITIES - WASTEWATER DIVISION
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
TEST YEAR ENDED DECEMBER 31, 1999
COST OF CAPITAL

Surrebuttal
Schedule TJC-17

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) <u>AMOUNT</u>	(B) <u>ADJUSTMENT</u>	(C) <u>ADJUSTED BALANCE</u>	(D) <u>CAPITAL RATIO</u>	(E) <u>COST</u>	(F) <u>WEIGHTED COST</u>
1	Long-Term Debt: CoBank Existing Loan	\$ 1,844,602		\$ 1,844,602	45.67%	7.91%	3.61%
2	CoBank Proposed Loan	1,179,398	(309,945)	869,453	21.53%	8.05%	1.73%
3	Equity	1,253,691		1,253,691	31.04%	11.40%	3.54%
4	Equity Adjustment (a)	71,401		71,401	1.77%	11.40%	0.20%
5	TOTAL	<u>\$ 4,349,092</u>		<u>\$ 4,039,147</u>	<u>100.00%</u>		<u>9.08%</u>



**ARIZONA DEPARTMENT OF REVENUE
PROPERTY TAX DIVISION**

1600 West Monroe, Room 820, Phoenix, Arizona 85007
Telephone: (602) 542-3529 Facsimile: (602) 542-5667

JANE DEE HULL
GOVERNOR

MARK W. KILLIAN
DIRECTOR

January 3, 2001

To: Arizona Water and Sewer Utility Companies

From: Cheryl Murray-Leyba, Administrator, Valuation Section

Re: Modification of Valuation Formula

Gentlemen:

After careful study and consideration, the Arizona Department of Revenue and the Water Utilities Association of Arizona have reached an agreement on a change in the valuation formula for water and sewer utility companies for property tax purposes. The goal of the Department and the Association was to arrive at a valuation formula that would: (1) produce predictable values; (2) be easy to administer; (3) be easy to report; (4) produce logical results; (5) be non-controversial; and, (6) produce a minimum tax impact from the previous year. It is our joint opinion that these goals have been met by this new formula. Further, it is hoped that this new valuation methodology will assist your company in your future dealings with the Arizona Corporation Commission regarding projections of future property tax expense.

The Department using the following formula, will value all water and sewer companies in Arizona beginning with the valuation for Tax Year 2002 (Valuation year as of January 1, 2001):

- The value of all water and sewer utility companies, for property tax purposes, will be computed by multiplying the average of the three previous years of reported gross revenues of the company by a factor of two (2).
- If the taxpayer reports less than three (3) years gross income, but reports income for the previous calendar year, the average gross revenue will be calculated based on the average of those years with reported revenues.
- If the taxpayer fails to report gross revenue or any other information required to calculate the value, the taxpayer will be notified of the incomplete filing and will be subject to late filing fees. The Department will then estimate the value of the property.

Attachment TJC-A

Page 2 of 2

January 3, 2001

- Page 2
Arizona Water and Sewer Utility Companies Memo

- Construction Work in Progress will be valued at ten percent (10%) of cost as of December 31 of the most recent calendar year.
- The net book cost of licensed vehicles will be deducted from the value indicated by the gross revenues.
- To accurately assess ongoing business operations, and to achieve comparability, further adjustments may be necessary.

Your company's tax liability, as a percentage of gross revenues, produced by this new valuation formula can be estimated as follows:

Valuation Factor	2
Times Assessment Ratio	<u>25%</u>
	.50
Times Tax Rate*	<u>.1000</u> (e.g.)
Estimated % Tax Liability	5.00%

*Total Primary and Secondary tax rates for taxing district(s) in which property is located.

The estimated tax liabilities should range somewhere between 2.5% and 8.5% of gross revenues in most instances, depending on the tax rates for the area in which company is located.

This change in valuation methodology will be reflected in the annual Property Tax Form, which will be mailed to you by the middle of January 2001. We look forward with working with you on this modification of the valuation formula. If you have any questions regarding this change, and how it may affect your company, please contact Bob Williams or Carole O'Brien of our section at (602) 542-3529.

RIO VERDE UTILITIES, INC.

DOCKET NO. WS-02156A-00-0321

DOCKET NO. WS-02156A-00-0323

SURREBUTTAL TESTIMONY

OF

MARYLEE DIAZ CORTEZ

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 31, 2001

1	INTRODUCTION.....	1
2	RATE BASE	2
3	Rate Base Adjustment #1 – Retired Plant	2
4	Rate Base Adjustment #6 – Water Storage Tank	3
5	COST OF EQUITY	6
6	CAP ADJUSTOR.....	9
7	RATE DESIGN.....	10

8

9

1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Marylee Diaz Cortez.

4
5 Q. Have you previously filed testimony in this docket?

6 A. Yes. I filed direct testimony in this docket on December 15, 2000.

7
8 Q. What is the purpose of your surrebuttal testimony?

9 A. In my surrebuttal testimony I will respond to the positions and arguments
10 set forth by various Rio Verde witnesses in their rebuttal testimony. I will
11 show that certain arguments are without merit and demonstrate why such
12 arguments should be rejected. I will acknowledge those arguments that
13 have merit. As applicable, my surrebuttal testimony will reaffirm certain
14 RUCO positions and acknowledge the Company's position on certain
15 issues.

16
17 Q. What areas will you address in your surrebuttal testimony?

18 A. I will address the following issues in my surrebuttal testimony:

19
20 Retired Plant

21 Storage Tank

22 Cost of Equity

23 CAP Surcharge

24 Rate Design

RATE BASE

Rate Base Adjustment #1 – Retired Plant

Q. What position does the Company take in its rebuttal testimony regarding the plant retirement adjustment recommended by Staff and yourself?

A. The Company agrees that the adjustment is necessary to remove old plant that has been retired from the books and records, as well to discontinue depreciation of these retired items. With some modification, the Company has adopted this adjustment in its rebuttal calculation of revenue requirements.

Q. Please discuss these modifications.

A. The Company has identified some errors in the information it originally had provided to Staff and RUCO pursuant to the retired plant. Accordingly, it has made the following corrections to retirement adjustment:

- 1) Recognized that 35% of the sewer plant retirements have already been removed from the rate base pursuant to the excess capacity adjustment. Thus, only 65% of the sewer plant retirements should be reflected in the adjustment to avoid removing the 35% portion twice – once via the excess capacity adjustment and again via the retirement adjustments.
- 2) Recognized that it had overstated the excess depreciation portion of the adjustment, by assuming that all depreciation

1 that had been recorded on each of the assets was excess,
2 as opposed to recognizing excess depreciation from the date
3 of actual retirement through the end of the test year. This
4 correction significantly reduced the amount of originally
5 estimated excess depreciation.

6 3) Recognized that its deferred income tax adjustment was
7 overstated because of the overstatement in excess
8 depreciation identified above, and due to a lower
9 Arizona Corporate Income Tax rate.

10
11 Q. Do you agree with these modifications?

12 A. Yes. I have updated my Water and Wastewater Schedules MDC-1 to
13 reflect these modifications.

14
15 **Rate Base Adjustment #6 – Water Storage Tank**

16 Q. Please discuss the Company's rebuttal comments regarding your
17 recommendation that the 740,000 gallon storage tank should be financed
18 with an Advance in Aid of Construction (AIAC) since its not necessary to
19 serve the current level of customers, but rather to serve potential future
20 growth.

21 A. The Company claims that the 740,000 gallon storage is fully used and
22 useful.

1 Q. What is the Company's basis for its assertion that the 740,000 gallon
2 storage tank is used and useful?

3 A. The Company claims it has average daily demand of 438,000 gallons and
4 a fire flow requirement of 408,000 gallons for a total needed storage
5 capacity of 846,000.
6

7 Q. Does ADEQ require additional capacity for fire flow?

8 A. No. According to ADEQ, capacity to meet fire flow is not "additive" to the
9 storage capacity required to meet average daily demand during the peak
10 month of the year. Rather the necessary capacity is the higher of the two
11 amounts less the production of the largest well. ADEQ explains that the
12 fire flow amount is not considered "additive" because fire is an
13 instantaneous event that does not happen everyday nor can reasonably
14 be expected to. In the rare event of a fire, if all capacity had to be utilized
15 to put the fire out the worst case scenario would be that customers might
16 be out of water for a few hours. It is not necessary to over design the
17 entire system to meet a rare occasion. Accordingly, if it were not for
18 anticipated future growth, a 740,000 gallon storage tank would not have
19 been necessary.
20
21
22

1 Q. Is your recommended adjustment for the 740,000 gallon water tank
2 intended to imply that the Company was imprudent in building this much
3 additional storage capacity?

4 A. No. Eventually all of the additional storage capacity will be needed and
5 used and useful if the customer growth the developer plans for is realized.
6 It may not have been prudent to add storage capacity on an incremental
7 basis to meet interim growth. My adjustment merely recognizes that the
8 risk associated housing development should be born by the party who
9 stands to reap the benefits of that growth – the developer. The developer
10 should bear that risk by funding plant that will serve future growth via an
11 advance in aid of construction. If and when such growth is realized the
12 funds will be refunded to the developer and ratepayers will bear the cost.

13
14 Q. The Company has implied that your adjustment does not allow the
15 recovery of depreciation on the storage tank. Is this true?

16 A. No. My advance in aid of construction adjustment merely effects recovery
17 of a return on the non-used and useful storage capacity. Depreciation of
18 the developer-advanced asset is provided for in RUCO's recommended
19 revenue requirement.

COST OF EQUITY

Q. Please discuss the Company's rebuttal testimony regarding cost of equity.

A. The Company, in its rebuttal testimony, has decreased its requested cost of equity from 12.75% to 12.25%. Rio Verde attributes the decrease in its request to recent cuts in interest rates by the Federal Reserve. The Company also states its decreased request is because it is willing to lower the revenue requirement.

Q. Do you agree with the Company's revised request for a 12.25% cost of equity?

A. No. The revised request is closer to the range of reasonableness established by the Company's DCF analysis, CAPM, and my analysis of similarly situated Arizona water utilities than was at 12.75%. However, it is still higher than warranted by the cost of equity analyses performed pursuant to this case.

Q. Does the Company provide any argument in support of a cost of equity that exceeds the cost indicated in its analyses?

A. Yes. The Company cites several arguments.

Q. Please discuss the first of these arguments.

A. First, the Company states that it will not realize the requested return on equity because of the 35% excess capacity disallowance of sewer

1 treatment plant. Rio Verde claims because of this disallowance that its
2 actual earned return will only equate to approximately 10.8%.

3
4 Q. Do you agree with this analysis?

5 A. No. Under rate of return regulation, a utility is entitled to an opportunity to
6 earn a fair and reasonable rate of return on its *used and useful* and
7 *prudently incurred* investment. If the 12.25% cost of equity is approved,
8 the Company will in fact earn its authorized return on its used and useful
9 investment, which is all it is entitled to.

10
11 Q. Please discuss the Company's second argument.

12 A. Rio Verde argues that it will not earn its allowed return if an automatic
13 adjustor is not authorized for its CAP expenses.

14
15 Q. Do you agree with this argument?

16 A. No. While it is possible that CAP expenses may increase, it likewise is
17 possible than *any* of the Company's revenues or expenses have the
18 potential to increase or decrease. Property tax rates have been known to
19 decrease, as well as purchased power rates, maintenance expenses,
20 insurance, etc. Rio Verde is a growing community and revenues are sure
21 to increase each year. However, the Company does not propose to look
22 at all of the factors that effect its earned return, but rather concludes that
23 an increase in CAP expenses automatically translates into underearnings.

1 Q. Please address the Company's other arguments.

2 A. The Company again cites its smaller size (smaller than the nationally
3 traded companies) as justification for a higher return on equity.

4
5 Q. Do you agree?

6 A. No. First, I do not agree that smaller size directly translates into greater
7 risk. Regardless of size, all of these utilities are in the same business –
8 that of providing safe and reliable water service. All utilities in the industry
9 are subject to the same water quality standards and attendant
10 environmental regulation risks, weather related risks, operational risks (i.e.
11 main breaks, burned out pumps, dry wells), regulatory lag risk, etc. The
12 only risk that may be unique to a small water company is liquidity risk.

13
14 Q. What evidence do you have that your recommended cost of equity is
15 appropriate for a company the size of Rio Verde?

16 A. As just discussed, the only risk that Rio Verde would have that may be
17 greater than the larger companies included in the DCF analysis is liquidity.
18 My recommended cost of equity exceeds the costs of equity indicated by
19 the Company's DCF analysis. Further, I have compared my
20 recommended cost of equity with the authorized costs of equity of small
21 similarly situated Arizona water utilities. My recommended cost of equity
22 for Rio Verde is in the upper portion of the range for other small Arizona
23 water companies.

1 Q. Has the Company presented any compelling evidence that would support
2 a cost of equity of 12.25%?

3 A. No. The Company's own analyses do not support that high of cost, as
4 well as the analyses of the other parties to this case. Staff, RUCO, and the
5 Rio Verde homeowners are all recommending a cost of equity in the
6 11.0% to 11.4% range.

7
8 **CAP ADJUSTOR**

9 Q. Please discuss the Company's rebuttal arguments regarding its CAP
10 adjustor mechanism.

11 A. The Company has presented no new arguments or justification why it
12 should retain the CAP adjustor once the cost is included in base rates.
13 None of the parties in this docket has opposed the inclusion of the full
14 current test year cost of the CAP water in rates. Thus, there is no need to
15 retain a separate surcharge or adjustor to recover those costs. As
16 discussed earlier, the mere *possibility* that a given cost may increase is
17 not justification for an automatic adjustor mechanism. If such were the
18 case every revenue and expense item on a utilities' income statement
19 would be subject to automatic adjustment.

1 Q. Do you agree with the Company's contention that the current CAP
2 surcharge is designed to retroactively recover CAP expenses for a two-
3 year prior period (i.e. 1998 through 2000)?

4 A. No. I have reviewed the Company's application, the Staff report and the
5 final decision from the CAP adjustor docket and there is no mention of the
6 adjustor being intended to recover prior period CAP expenses. The
7 adjustor was designed to recover the difference between the amount
8 included in the then-current rates and the then-current cost of the CAP
9 water. The Company has included the current costs of the CAP water in
10 its requested rates in this docket. No party has opposed the inclusion of
11 100% of these costs in the rates to be set in this docket. Accordingly, the
12 surcharge must cease once new rates go into effect or the Company will
13 be allowed to double recover the incremental increase in its CAP
14 expenses, once through base rates and again through the CAP surcharge.

15
16 **RATE DESIGN**

17 Q. Have you redesigned your recommended water and sewer rates?

18 A. Yes. As a result of certain revisions made by myself and RUCO's other
19 witness Timothy Coley we are recommending a slightly lower revenue
20 requirement for both the water and sewer division. Accordingly, it was
21 necessary to redesign rates to reflect the revised revenue requirement.
22 My recommended rates are shown on updated Schedules MDC-4 Water

1 and Wastewater. I have used the same methodology and principles, as
2 described in my direct testimony, to designing the revised rates.
3

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes.
6
7
8

Rio Verde Utilities, Inc. - **WATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999
RATE BASE ADJUSTMENT #1
ADJUSTMENTS TO REFLECT PLANT RETIREMENTS

Surrebuttal
Schedule MDC-1

LINE NO.	DESCRIPTION	AMOUNT	REFERENCES
	Remove Retired Plant from Books:		
1	Plant	\$ (130,251)	See Note 1-W below.
2	Accumulated Depreciation	(130,251)	See Note 1-W below.
3	Remove Excess Depreciation on Retired Plant	(7,728)	See Note 1-W below.
4	Adjust Accumulated Deferred Income Taxes for Excess Depreciation	2,983	See Note 1-W below.
5	RUCO's Recommended Adjustment	4,745	-(Line 4 minus Line 3)

NOTE 1-W: Company Rebuttal Schedule B-2, pages 4 & 5.

Rio Verde Utilities, Inc. - **WASTEWATER DIVISION**
Docket No. WS-02156A-00-0321 and WS-02156A-00-0323
Test Year Ended December 31, 1999

Surrebuttal
Schedule MDC-1

ADJUSTMENTS TO REFLECT PLANT RETIREMENTS

LINE NO.	DESCRIPTION	AMOUNT	REFERENCES
	Remove Retired Plant from Books:		
1	Plant	\$ (51,951)	See Note 2-S below.
2	Accumulated Depreciation	(51,951)	See Note 2-S below.
3	Remove Excess Depreciation on Retired Plant	(8,363)	See Note 2-S below.
4	Adjust Accumulated Deferred Income Taxes for Excess Depreciation	4,852	See Note 2-S below.
5	RUCO's Recommended Adjustment to Rate Base	3,511	-(Line 4 minus Line 3)

NOTE 2-S: Company Rebuttal Schedule B-2, pages 3 & 4.

RIO VERDE UTILITIES INC. - WATER
TEST YEAR ENDED DECEMBER 31, 1999
RUCO PROPOSED RATES

DOCKET NOS. WS-02156A-00-321
& WS-02156-00-0323
SURREBUTTAL SCHEDULE MDC-4

LINE NO.	CUSTOMER CLASSIFICATION/METER SIZE	RUCO PROPOSED RATES	RUCO PROPOSED REVENUE
1	RESIDENTIAL - 5/8 3/4 INCH	\$7.60	339,573
2	COMMERCIAL - 1 INCH	7.60	7,908
3	COMMERCIAL - 2 INCH	39.00	41,111
4	COMMERCIAL - 4 INCH	126.00	378
5	COMMERCIAL - 6 INCH	258.00	6,442
6	IRRIGATION - 6 INCH	258.00	3,135
7	IRRIGATION - 6 INCH - POTABLE	258.00	3,096
8	IRRIGATION - 8 INCH	578.00	155,516
9	IRRIGATION - 12 INCH	992.00	555,680
10	TOTAL WATER REVENUES		1,112,839
11	HOOK-UP FEE REVENUE		60,000
12	MISC. REVENUE		6,399
13	TOTAL REVENUE		\$1,179,238
COMMODITY RATE PER 1,000 GALLONS			
14	POTABLE	\$1.56	
15	NON-POTABLE	1.03	
16	GALLONS IN MINIMUM	0	

RIO VERDE UTILITIES INC - WASTEWATER
TEST YEAR ENDED DECEMBER 31, 1999
RUCO PROPOSED RATES

DOCKET NOS. WS-02156A-00-321
& WS-02156-00-0323
SURREBUTTAL SCHEDULE MDC-4

LINE NO.	<u>CUSTOMER CLASSIFICATION</u>	RUCO PROPOSED RATES	RUCO PROPOSED REVENUE
1	RESIDENTIAL	43.00	603,651
2	COMMERCIAL	140.00	31,921
3	COMMERCIAL - RESTUARANT	187.00	4,488
4	EFFLUENT REVENUE	1.02	<u>55,370</u>
5	TOTAL WASTEWATER REVENUES		695,430
6	HOOK-UP FEE REVENUE	1,500	90,000
7	OTHER REVENUE		<u>2,341</u>
8	TOTAL REVENUE		787,771